# Nkandla Municipality
Annual financial statements
for the year ended 30 June 2010

# Nkandla Municipality

## Index



**Abbreviations**

| | |
|---|---|
| COID | Compensation for Occupational Injuries and Diseases |
| CRR | Capital Replacement Reserve |
| DBSA | Development Bank of South Africa |
| GRAP | Generally Recognised Accounting Practice |
| IAS | International Accounting Standards |
| IMFO | Institute of Municipal Finance Officers |
| IPSAS | International Public Sector Accounting Standards |
| MEC | Member of the Executive Council |
| MFMA | Municipal Finance Management Act |
| MIG | Municipal Infrastructure Grant (Previously CMIP) |

## Nkandla Municipality

## Approval of Annual Financial Statements

I am responsible for the preparation of these annual financial statements, which are set out on pages 3 to 40, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 20 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

**Acting Municipal Manager: Mr NM Mynandu**

~~14 December 2010~~ 03/01/2011
**Date**

# Nkandla Municipality

## Statement of Financial Position as at 30 June 2010

| | Note | 2010<br>R | 2009<br>R |
|---|---|---|---|
| **Assets** | | | |
| **Current Assets** | | | |
| Other receivables | 7 | 718,000 | 718,000 |
| VAT receivable | 8 | 469,221 | 385,900 |
| Consumer debtors | 9 | 1,207,428 | 163,194 |
| Financial assets - Investments | 6 | 18,382,032 | 1,170,101 |
| Cash and cash equivalents | 10 | 7,192,623 | 416,777 |
| | | **27,969,304** | **2,853,972** |
| **Non-Current Assets** | | | |
| Investment property | 2 | 38,000 | 18,000 |
| Property, plant and equipment | 3 | 153,856,524 | 149,934,755 |
| Intangible assets | 4 | 46,024 | 6,162 |
| | | **153,940,548** | **149,958,917** |
| **Total Assets** | | **181,909,852** | **152,812,889** |
| **Liabilities** | | | |
| **Current Liabilities** | | | |
| Trade and other payables | 13 | 4,079,621 | 1,499,651 |
| Unspent conditional grants and receipts | 11 | 22,590,312 | 3,736,846 |
| Provisions | 12 | 897,770 | 784,076 |
| | | **27,567,703** | **6,000,573** |
| **Non-Current Liabilities** | | | |
| Provisions | 12 | 3,500,000 | 3,181,818 |
| **Total Liabilities** | | **31,067,703** | **9,182,391** |
| **Net Assets** | | **150,842,149** | **143,630,498** |
| **Net Assets** | | | |
| Accumulated surplus/(deficit) | | 150,842,149 | 143,630,498 |

# Nkandla Municipality

## Statement of Financial Performance for the year ending 30 June 2010

| | Note | 2010<br>R | 2009<br>R |
|---|---|---|---|
| **Revenue** | | | |
| Property rates | 15 | 1,241,069 | 121,172 |
| Service charges | 16 | 357,800 | 275,108 |
| Rental of facilities and equipment | 26 | 273,805 | 215,328 |
| Government grants & subsidies | 17 | 36,096,886 | 33,735,926 |
| Sundry income | 18 | 141,887 | 134,634 |
| Interest received - investment | 22 | 538,819 | 455,013 |
| **Total Revenue** | | **38,650,266** | **34,937,181** |
| **Expenditure** | | | |
| Employee related costs | 19 | (11,210,702) | (10,431,176) |
| Remuneration of councillors | 20 | (4,437,659) | (4,123,629) |
| Operating lease expense | | (499,260) | (765,799) |
| Depreciation and amortisation | 23 | (2,260,800) | (2,129,879) |
| Finance costs | 24 | (318,182) | (289,256) |
| Increase in provision for bad debts | 21 | (67,151) | (475,968) |
| Repairs and maintenance | | (836,809) | (126,505) |
| General expenses | 27 | (11,808,052) | (10,095,980) |
| **Total Expenditure** | | **(31,438,615)** | **(28,438,192)** |
| **Surplus/(deficit) for the period** | | **7,211,651** | **6,498,989** |

# Nkandla Municipality

## Statement of Changes in Net Assets as at 30 June 2010

| | Accumulated (deficit) / surplus R | Total: Net assets R |
|---|---|---|
| **Balance at 01 July 2008** | **38,340,975** | **38,340,975** |
| Changes in net assets | | |
| Prior year error | (2,450,060) | (2,450,060) |
| Net income (expenses) recognised directly in net assets | (2,450,060) | (2,450,060) |
| Surplus for the year | 9,272,158 | 9,272,158 |
| Total recognised income and expenses for the year | 6,822,098 | 6,822,098 |
| Total changes | 6,822,098 | 6,822,098 |
| Opening balance as previously reported | 45,163,073 | 45,163,073 |
| Adjustments | | |
| Restatement of corresponding figures (refer note 38) | 98,467,425 | 98,467,425 |
| **Balance at 01 July 2009 as restated** | **143,630,498** | **143,630,498** |
| Changes in net assets | | |
| Surplus for the year | 7,211,651 | 7,211,651 |
| Total changes | 7,211,651 | 7,211,651 |
| **Balance at 30 June 2010** | **150,842,149** | **150,842,149** |

# Nkandla Municipality

## Cash Flow Statement as at 30 June 2010

| | Note | 2010<br>R | 2009<br>R |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Cash receipts from customers | | 39,013,854 | 31,930,929 |
| Cash paid to suppliers and employees | | (21,797,065) | (11,825,044) |
| Cash (used in) / generated from operations | 28 | 17,216,789 | 20,105,885 |
| Interest income | | 538,819 | 455,013 |
| Finance costs | | (318,182) | (289,256) |
| **Net cash flows from operating activities** | | **17,437,426** | **20,271,642** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchase of property, plant and equipment | 3 | (12,376,937) | (16,192,805) |
| Sale of property, plant and equipment | 3 | 120,000 | - |
| Purchase of other intangible assets | 4 | (46,178) | (8,984) |
| Purchase of financial assets - investments | | (17,211,931) | - |
| Sale of financial assets - investments | | - | 3,570,775 |
| Increase/(Decrease) in government grants | | 18,853,466 | (5,276,257) |
| **Net cash flows from investing activities** | | **(10,661,580)** | **(17,907,271)** |
| **Net increase (decrease) in cash and cash equivalents** | | **6,775,846** | **2,364,371** |
| Cash at the beginning of the year | | 416,777 | (1,947,594) |
| **Net cash and cash equivalents at the end of period** | 10 | **7,192,623** | **416,777** |

## 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise.

These annual financial statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

The principal accounting policies adopted in the preparation of these annual financial statements are set out below.

Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant policy.

The municipality adopted GRAP in the prior year (June 30,2009).

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

The municipality adopted GRAP in the prior year (June 30, 2009) and took advantage of the transitional provisions of Directive 4 which are available to medium capacity municipalities. These provisions are available to the Municipality until June 30, 2011. Tha application of these transitional provisions is detailed in each policy to which the Directive applies.

### Presentation Currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

### Going concern assumption

These annual financial statements have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months. It must however, be noted that the municipality is largely reliant on equitabla share and other grants received from the government as its own income is not currently sufficient to sustain it in tha forseeable future.

### Comparative Information

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

## 1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

### Trade receivables and loans and receivables

The municipality assesses its trade receivables and loans and receivables for impairment at each statement of financial position date. In determining whether an impairment loss should be recorded in the statement of financial performance, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. Significant financial difficulties of the debtor, default and delinquency in payments are considered indicators that the trade receivables are impaired.

### Allowance for doubtful debts

### 1.1 Significant judgements and sources of estimation uncertainty (continued)

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

**Fair value estimation**

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

**Provisions**

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 12 - Provisions.

**Effective interest rate**

The municipality used the incremental borrowing rate to discount future cash flows.

**Directive 4**

As allowed by the transitional provisions included in Directive 4, the following asset classes have not been measured in accordance with the relevant GRAP for the year ended June 30, 2010:

| | |
|---|---|
| Investment property | (GRAP 16) |
| Property, Plant and Equipment | (GRAP 17) |
| Intangible assets | (GRAP 102) |

Management has estimated provisional amounts for each of these asset classes which are included in the statement of financial position. These amounts are subject to change once the measurement process has been completed, which is expected to occur by June 30, 2011.

**Standards, amendments to standards and interpretations issued but not yet effective**

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality:

GRAP 18 Segment reporting
GRAP 21 Impairment of non-cash generating assets
GRAP 23 Revenue from Non-exchange Transactions (Taxes and Transfers)
GRAP 24 Presentation of Budget information
GRAP 25 Employee Benefits
GRAP 26 Impairment of Cash-generating Assets
GRAP 103 Heritage Assets
GRAP 104 Financial Instruments

The municipality has not applied the following accounting statements and interpretations that have been issued but are not yet effective. These will be applied by the municipality when they become effective:

IFRS 2 Amendments to IFRS 2 Shared-based payments- Group cash settled share-based payment arrangements.
This amendment is required for years commencing on or after 1 January 2010 but is not expected to be relevant to the activities of the municipality.

IFRS 9 Financial Instruments
This new standard is required for years commencing on or after 1 January 2013. The impact of this standard is currently being determined.

IAS 24 Related party disclosures
This amended standard is required for years commencing on or after 1 January 2011 but is not expected to have a material impact on the municipality.

IAS 32 Amendments to IAS 32 Financial Instruments : Presentation – Classification of rights issues

**1.1 Significant judgements and sources of estimation uncertainty (continued)**

This amendment is required for years commencing on or after 1 February 2010 but is not relevant to the activities of the municipality.

IFRIC 14 Amendments for prepayments of a minimum funding requirement

This amended interpretation is required for years commencing on or after 1 January 2011 but is not expected to be relevant to the activities of the municipality.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

This interpretation is required for years commencing on or after 1 July 2010 but is not expected to be relevant to the activities of the municipality.

Improvements to IFRS (April 2009)

These annual improvements are required mostly for years commencing on or after 1 January 2010 and are not expected to be relevant to the activities of the municipality.

Improvements to IFRS (May 2010)

These annual improvements are required mostly for years commencing on or after 1 January 2011 and are not expected to be relevant to the activities of the municipality.

### 1.2 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, and only when, it is probable that the future economic benefits that are associated with the investment property will flow to the enterprise, and the cost of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

The cost of self-constructed investment property is the cost at date of completion.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

**Subsequent measurement - Cost model**

Investment property is carried at cost less depreciation less any accumulated impairment losses.

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The useful life of the property, is as follows:

| Item | Useful life |
|---|---|
| Property - land | indefinite |
| Property - buildings | 30 years |

The municipality has taken advantage of the transitional provisions of Directive 4 which are available to medium capacity municipalities for the year ended June 30, 2010.

Investment property has therefore not been measured in accordance with GRAP 16 or the accounting policy above. A "provisional" amount has been determined by management, which will be used until the GRAP 16 measurement process is completed. It is anticipated that this process will be completed by June 30, 2011.

### 1.3 Property, plant and equipment

**Initial recognition**

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year.

Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

### 1.3 Property, plant and equipment (continued)

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment.

Major spare parts and servicing equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and servicing equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

**Subsequent measurement - Cost Model**

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

**Depreciation and Impairment**

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

The useful lives of items of property, plant and equipment have been assessed as follows:

| Item | Average useful life |
|---|---|
| Property & Permanent Works | 30 years |
| Plant & Equipment | 5-6 years |
| Furniture and fixtures | 6 years |
| Vehicles | 5 years |
| Equipment | 5-6 years |
| IT equipment | 3 years |

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate in the Statement of Financial Performance.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

The municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

**Derecognition**

### 1.3 Property, plant and equipment (continued)

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of Intangible assets is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of intangible assets is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

### 1.4 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- subject to the criteria below, changes in the liability are added to, or deducted from, the cost of the related asset in the current period
- if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount, and any impairment loss is recognised in surplus or deficit.

### 1.5 Intangible assets

An intangible esset is en identifiable non-monetary asset without physical substance. Examples include computer software, licences, and development costs.

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchenged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights ere transferable or separate from the municipality or from other rights end obligations.

An intangible asset is recognised in the Statement of Financial Position when:

- it is probable that the expected future economic benefits that ere attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

Expenditure on research (or on the research phase of an intemal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

### 1.5 Intangible assets (continued)

**Subsequent measurement - Cost Model**

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

**Amortisation and impairment**

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Amortisation is not provided for these intangible assets. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed every period-end and any changes are recognised as a change in acounting estimate in the Statement of Financial Performance.

Reassessing the useful life of an intangible asset with a definite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

The municipality tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

| Item | Useful life |
|---|---|
| Licenses | 1 year |
| Computer software | 3 years |

**Derecognition**

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit in the Statement of Financial Performance when the asset is derecognised.

The municipality has taken advantage of the transitional provisions of Directive 4 which are available to medium capacity municipalities for the year ended June 30, 2010.
Intangible assets have therefore not been measured in accordance with GRAP 102 or the accounting policy above. A "provisional" amount has been determined by management, which will be used until the GRAP 102 measurement process is completed. It is anticipated that this process will be completed by June 30, 2011.

### 1.6 Financial instruments

**Classification**

The municipality classifies financial assets and financial liabilities into the following categories:
- Loans and receivables
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis.

**Initial recognition and measurement**

### 1.6 Financial instruments (continued)

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value.

Transaction costs are included in the initial measurement of the instrument.

**Subsequent measurement**

Loans and receivables and consumer debtors are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

**Trade and other receivables**

Trade and other receivables are classified as loans and receivables.

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Tha carrying amount of tha asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsaquent recoveries of amounts previously written off ara credited against operating expenses in surplus or deficit.

**Cash and cash equivalents and other financial assets**

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash and cash equivalents are initially recorded at fair value and subsequently recorded at amortised cost as a loan receivable.

**Bank overdraft, borrowings and trade and other payables**

Bank overdrafts, borrowings and trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

**Gains and losses**

For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

### 1.6 Financial instruments (continued)

**Derecognition**

**Financial assets**

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

the rights to receive cash flows from the asset have expired;

the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or

the municipality has transferred its rights to receive cash flows from the asset and either

- has transferred substantially all the risks and rewards of the asset, or
- has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay.

**Financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

**Impairment of financial assets**

The municipality assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

Assets are carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

### 1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

**Finance leases – lessee**

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

The lease payments are apportioned between the finance charge and reduction of the outstanding liability.The finance

### 1.7 Leases (continued)

charge is allocated to each period during the lease term so as to produce a constant periodic rate of return on the remaining balance of the liability.

**Operating leases - lessor**

Operating lease income is recognised as an income on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

Income for leases is disclosed under revenue in the statement of financial performance.

**Operating leases – lessee**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an a prepayment or an accrual, as applicable.

Any contingent rents are expensed in the period they are incurred.

### 1.8 Impairment of assets

Tha municipality assesses at each statement of financial position date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

An impairment loss is recognised for cash generating units if the recoverable amount of the unit is less than the carrying amounts of the units.

An entity assesses at each reporting date whether there is any indication that an impairment loss recognised in the prior periods may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in the prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

Impairment of assets has not been performed as the transitional provisions in Directive 4 relating to the exemption of measurement of all assets have been applied.

### 1.9 Employee benefits

**Short-term employee benefits**

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

### 1.9 Employee benefits (continued)

Retirement benefits

The municipality provides retirement benefits for its employees and councillors. The contributions to fund obligations for the payment of retirement benefits are charged against revenue in the year they become payable. The defined benefit funds, which are administered on a provincial basis, are treated as defined contribution plans by the municipality as allowed by IAS 19 Employee benefits.

### 1.10 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. If the municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:

The municipality has a detailed formal plan for the restructuring identifying at least:

- the business or part of a business concerned;
- the principal locations affected;
- the location, function, and approximate number of employees who will be compensated for terminating their services;
- the expenditures that will be undertaken;
- when the plan will be implemented; and

The municipality has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Contingent assets and contingent liabilities are not recognised. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.Contingencies are disclosed in note 30.

### 1.11 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

**Measurement**

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for goods and services provided in the normal course of business, net of trade discounts and volume rebates and value added tax.

**Sale of goods**

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

**Rendering of services**

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

**Interest, royalties and dividends**

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends, or their equivalents are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

### 1.12 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

#### Fines

Revenue from the issuing of fines is recognised when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

#### Government grants

Government grants are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

#### Other grants and donations

Other grants and donations are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

### 1.13 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

### 1.14 Borrowing costs

Borrowing costs that are attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete. It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established. Borrowing costs incurred other than on qualifying assets are recognised as an expense in surplus or deficit when incurred.

### 1.15 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote;
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.16 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expensa, and whera recovared, it is subsequently accounted for as revanua in the statement of financial performance.

### 1.17 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the statement of financial performance and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.18 Use of Estimates

The preparation of annual financial statements in conformity with the Standards of Generally Recognised Accounting Practice requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosad in tha relevant sections of the annual financial statements. Although these estimates are based on management's best knowladge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

### 1.19 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

| | 2010 | 2009 |
|---|---|---|
| | R | R |

### 2. Investment property

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated depreciation | Carrying value | Cost / Valuation | Accumulated depreciation | Carrying value |
| Investment property | 38,000 | - | 38,000 | 18,000 | - | 18,000 |

**Reconciliation of investment property - 2010**

| | Opening Balance | Transfers | Total |
|---|---|---|---|
| Investment property | 18,000 | 20,000 | 38,000 |

**Reconciliation of investment property - 2009**

| | Opening Balance | Transfers | Total |
|---|---|---|---|
| Investment property | - | 18,000 | 18,000 |

The municipality has taken advantage of the transitional provisions of Directive 4 which are available to medium capacity municipalities for the year ended June 30, 2010.

Investment property have therefore not been measured in accordance with GRAP 16 or the accounting policy above. A "provisional" amount has been determined by management, which will be used until the GRAP 16 measurement process is completed. It is anticipated that this process will be completed by June 30, 2011.

### 3. Property, plant and equipment

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated depreciation | Carrying value | Cost / Valuation | Accumulated depreciation | Carrying value |
| Land | 104,005,940 | - | 104,005,940 | 104,025,940 | - | 104,025,940 |
| Buildings | 4,329,275 | (816,959) | 3,512,316 | 4,329,275 | (672,649) | 3,656,626 |
| Plant and machinery | 1,675,270 | (961,434) | 713,836 | 1,675,270 | (828,849) | 846,421 |
| Furniture and fixtures | 1,332,259 | (889,731) | 442,528 | 1,331,424 | (721,969) | 609,455 |
| Motor vehicles | 1,319,033 | (966,683) | 352,350 | 1,242,101 | (825,164) | 416,937 |
| Office equipment | 115,358 | (76,139) | 39,219 | 111,485 | (61,105) | 50,380 |
| IT equipment | 1,768,217 | (1,286,075) | 482,142 | 1,596,296 | (872,704) | 723,592 |
| Infrastructure | 17,791,832 | (1,394,548) | 16,397,284 | 12,825,736 | (920,266) | 11,905,470 |
| Community | 18,439,782 | (2,718,058) | 15,721,724 | 17,460,132 | (2,133,460) | 15,326,672 |
| Capital work in progress | 9,527,823 | - | 9,527,823 | 9,661,285 | - | 9,661,285 |
| Park facilities | 130,406 | (36) | 130,370 | - | - | - |
| Landfill site | 2,892,562 | (361,570) | 2,530,992 | 2,892,562 | (180,785) | 2,711,777 |
| **Total** | **163,327,757** | **(9,471,233)** | **153,856,524** | **157,151,506** | **(7,216,751)** | **149,934,755** |

**Reconciliation of property, plant and equipment - 2010**

| | Opening Balance | Additions | Disposals | Transfers | Depreciation | Total |
|---|---|---|---|---|---|---|
| Buildings | 3,656,626 | - | - | - | (144,310) | 3,512,316 |
| Land | 104,025,940 | - | - | (20,000) | - | 104,005,940 |
| Other assets | 2,646,985 | 548,967 | (165,000) | - | (870,507) | 2,160,445 |
| Infrastructure | 11,905,470 | 4,966,097 | - | - | (474,283) | 16,397,284 |
| Community | 15,326,672 | 979,651 | - | - | (584,599) | 15,721,724 |
| Capital work in progress | 9,661,285 | 5,882,222 | - | (6,015,684) | - | 9,527,823 |
| Landfill site | 2,711,777 | - | - | - | (180,785) | 2,530,992 |

| | 2010 R | 2009 R |
|---|---|---|

### 3. Property, plant and equipment (continued)

| | | | | | |
|---|---|---|---|---|---|
| | **149,934,755** | **12,376,937** | **(165,000)** | **(6,035,684)** | **(2,254,484)** | **153,856,524** |

**Reconciliation of property, plant and equipment - 2009**

| | Opening Balance | Additions | Transfers | Depreciation | Total |
|---|---|---|---|---|---|
| Buildings | 3,800,935 | - | - | (144,309) | 3,656,626 |
| Land | 104,043,940 | - | (18,000) | - | 104,025,940 |
| Other assets | 2,126,216 | 1,431,237 | - | (910,468) | 2,646,985 |
| Infrastructure | 10,888,853 | 1,431,380 | - | (414,763) | 11,905,470 |
| Community | 12,372,639 | 3,430,765 | - | (476,732) | 15,326,672 |
| Capital work in progress | 4,701,388 | 9,899,423 | (4,939,526) | - | 9,661,285 |
| Landfill site | 2,892,562 | - | - | (180,785) | 2,711,777 |
| | **140,826,533** | **16,192,805** | **(4,957,526)** | **(2,127,057)** | **149,934,755** |

The municipality has taken advantage of the transitional provisions of Directive 4 which are available to medium capacity municipalities for the year ended June 30, 2010.
Property, plant and equipment have therefore not been measured in accordance with GRAP 17 or the accounting policy above. A "provisional" amount has been determined by management, which will be used until the GRAP 17 measurement process is completed. It is anticipated that this process will be completed by June 30, 2011.

### 4. Intangible assets

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated amortisation | Carrying value | Cost / Valuation | Accumulated amortisation | Carrying value |
| Computer software | 55,162 | (9,138) | 46,024 | 8,984 | (2,822) | 6,162 |

**Reconciliation of intangible assets - 2010**

| | Opening Balance | Additions | Amortisation | Total |
|---|---|---|---|---|
| Computer software | 6,162 | 46,178 | (6,316) | 46,024 |

**Reconciliation of intangible assets - 2009**

| | Opening Balance | Additions | Amortisation | Total |
|---|---|---|---|---|
| Computer software | - | 8,984 | (2,822) | 6,162 |

The municipality has taken advantage of the transitional provisions of Directive 4 which are available to medium capacity municipalities for the year ended June 30, 2010.
Intangible assets have therefore not been measured in accordance with GRAP 102 or the accounting policy above. A "provisional" amount has been determined by management, which will be used until the GRAP 102 measurement process is completed. It is anticipated that this process will be completed by June 30, 2011.

### 5. Retirement benefits

All municipal employees belong to The Natal Joint Municipal Pension Fund (Retirement) which are administered by the Province.

All municipal councillors belong to The Municipal Councillors Penion Fund.

The valuator carries out a statutory valuation on a triennial basis and an interim valuation on an annual basis (the 2006 interim has been completed).

| | 2010 | 2009 |
|---|---|---|
| | R | R |

### 5. Retirement benefits (continued)

**Retirement Fund**

The salient features of the statutory valuation of the fund at 31 March 2009 are:

| | 2010 | 2009 |
|---|---|---|
| The actuarial value of total assets of the fund was less than the actuarial value of the liabilities for the service of members to that date and for pensioners by: | -80,100,000 | -80,100,000 |
| **Made up as follows:** | | |
| **For service to 31 March 2009** | | |
| for pensioners - funding level 119.1% (2006 : funding level 116.2%) - surplus | 134,100,000 | 134,100,000 |
| for members - funding level 79.5% (2006 : funding level 73,0%) - deficit | -214,200,000 | -214,200,000 |
| The fund was thus funded | 79.50% | 79.50% |

The fund did not hold an Investment Reserve.

| | 2010 | 2009 |
|---|---|---|
| With effect from 01 July 2000, local authorities commenced paying a surcharge equal to 2% of pensionable salaries. It was subsequently increased each year and is currently | 17.00% | 17.00% |
| and members pay | 1.65% | 1.65% |

Based on the valuation assumptions applied in 2000 the shortfall was expected to be fully funded by 2011.During the previous intarim valuation the actuary found that the mortality assumption for pensioners was not in line with actual experience and so the assumption was changed. Accordingly, the current surcharge is required to continue for a further two years after 2010 to be fully funded.

**Conclusion**

The actuary is satisfied that the self-insurance arrangement is appropriate for the Fund, the asset composition of the Fund is appropriate to the nature of the liabilities, the contributions being paid to the Fund, including the surcharges are sufficient to meet the shortfall by 30 June 2010 and based on the revised assumptions, which allow for the improving pensioner mortality, an extension of the surcharge for a further two years is necessary

**Municipal Councillors' Pension Fund**

The audited financial statements for the financial years ended 30 June 2009 and 2010 have not been distributed as yet, as these audits have not been completed. Accordingly, reliable financial formation is not available to be presented.

### 6. Financial assets - Investments

| | 2010 | 2009 |
|---|---|---|
| **Current portion** | | |
| ABSA Call investment account | 5,056,924 | 394,999 |
| ABSA MIG Call account | 7,604,449 | 738,156 |
| ABSA Conditional Call account | 5,720,659 | 36,946 |
| | **18,382,032** | **1,170,101** |

### 7. Other receivables

| | 2010 | 2009 |
|---|---|---|
| Sundry debtors | 718,000 | 718,000 |

### 8. VAT receivable

| | 2010 | 2009 |
|---|---|---|
| VAT receivable | 469,221 | 385,900 |

VAT is payable on the receipts basis. VAT is paid over to SARS only once payment is received from debtors.

| | 2010 R | 2009 R |
|---|---|---|

## 9. Consumer debtors

| | 2010 R | 2009 R |
|---|---|---|
| **Gross balances** | | |
| Rates and refuse | 5,997,554 | 4,886,169 |
| **Less: Provision for bad debts** | | |
| Rates and refuse | (4,790,126) | (4,722,975) |
| **Net balance** | | |
| Rates and refuse | 1,207,428 | 163,194 |
| **Rates and refuse** | | |
| Current (0 -30 days) | 144,251 | 37,126 |
| 31 - 60 days | 133,853 | 37,094 |
| 61 - 90 days | 133,622 | 684 |
| 91 - 120 days | 795,702 | 88,290 |
| | **1,207,428** | **163,194** |
| **Reconciliation of bad debt provision** | | |
| Balanca at beginning of the year | 4,722,975 | 4,247,007 |
| Provision raised during the year | 67,151 | 475,968 |
| | **4,790,126** | **4,722,975** |

**Credit quality of consumer debtors**

The credit quality of consumer debtors that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

**Consumer debtors past due but not impaired**

Consumer debtors which are less than 3 months past due are not considered to be impaired. At 30 June 2010, R1 207 428 (2009: R 163 194) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

| | | |
|---|---|---|
| Less than 1 month past due | 144,251 | 37,126 |
| 1 month past due | 133,853 | 37,094 |
| 2 months past due | 133,622 | 684 |
| 3 months past due | 795,702 | 88,290 |

| | 2010 R | 2009 R |
|---|---|---|

### 9. Consumer debtors (continued)

**Consumer debtors impaired**

As of 30 June 2010, consumer debtors of R 4,790,126 (2009: R 4,722,975) were impaired and provided for.

The amount of the provision was R4,790,126 as of 30 June 2010 (2009: R 4,722,975).

The ageing of these loans is as follows:

| | 2010 R | 2009 R |
|---|---|---|
| Over 2 months | - | 36,333 |
| Over 3 months | 4,790,126 | 4,686,641 |

The fair value of trade and other receivables approximates their carrying amounts.

### 10. Cash and cash equivalents

Cash and cash equivalents consist of:

| | 2010 R | 2009 R |
|---|---|---|
| Cash on hand | 2,853 | - |
| Bank balances | 7,189,770 | 416,777 |
| | **7,192,623** | **416,777** |

**The municipality had the following bank accounts**

| Account number / description | Bank statement balances | | Cash book balances | |
|---|---|---|---|---|
| | 30 June 2010 | 30 June 2009 | 30 June 2010 | 30 June 2009 |
| Absa Bank Limited - La Lucia Ridge Branch - Public Sector Current account - Account number 40 5385 8355 | 7,189,770 | 416,775 | 7,189,770 | 418,895 |
| Absa Bank Limited - La Lucia Ridge Branch - Disaster Management | - | 82 | - | 82 |
| **Total** | **7,189,770** | **416,857** | **7,189,770** | **416,777** |

| | 2010 R | 2009 R |
|---|---|---|

## 11. Unspent conditional grants and receipts

**Unspent conditional grants and receipts comprises of:**

| | | |
|---|---|---|
| Municipal infrastructure grant (MIG) | 10,199,090 | 2,830,582 |
| Municipal systems improvement grant (MSIG) | 332,212 | - |
| Municipal assistance programme grant (MAP) | - | - |
| Feasability study grant | - | - |
| Finance management grant (FMG) | 526,470 | 15,822 |
| Spatial planning grant | - | - |
| Zulu dance grant | - | - |
| Infrastructure investment grant | - | - |
| GIS Capacity support grant | - | - |
| Sports and recreation | 137,051 | 444,443 |
| E-learning grant | 167,230 | 376,755 |
| Town planning scheme | - | - |
| Valuation roll grant | - | 69,244 |
| Small town rehabilation grant | 11,198,456 | - |
| Cyber cadet grant | 29,803 | - |
| **Total unspent conditional grants and receipts** | **22,590,312** | **3,736,846** |

Equitable share
This grant is used for the operations of the municipality.

MIG Grant
This grant is used to address backlogs in municipal infrastructure required for the provision of basic services. The unspent portion will be used to complete the same projects.

MAP Grant
The Management Assistant Programme is the funding from Local Government for management to assist the municipality to provide better service to the community. It is usually used to buy and maintain computers for the municipality.

MSIG Grant
This grant is used for infrastructure and for capacity building and restructuring. The capacity building and restructuring grants were set up to assist municipality in developing their planning, budgeting, financial management and technical skills. Furthermore, the municipality used this grant for payments regarding intergrated development planning, performance management, preparation of annual financial statements, effective administration, efficient service delivery mechanisms, revenue enhancement as well as powers and functions.

FMG Grant
The main objective of this grant is to assist in the rollout of financial management reforms embodied in the MFMA through building capacity in financial management. Its primary purpose is to assist building strong financial management skills.The unspent portion will be used to complete the same projects.

GIS Capacity support grant
This grant is used for the purposes of building the Municipality's GIS capacity, by preparation of a business plan for the implementation of its GIS, training of staff, acquisition of hardware/software to supports its GIS,etc. The unspent portion will be used to complete the same projects.

Valuation Roll grant
The main objective of this grant was to facilitate the implementation of the Property Rates Act, 2004 and to assist the municipality in preparing valuation rolls whereby a policy framework developed by the municipality is used to ensure that property would be valued in accordance with generally recognised valuation practices,methods and standards.

Feasability study grant
This grant was funded from the Department of Local Government and Traditional Affairs in order to assist the municipality to develop terms of reference and conduct a feasability study for the skill development centre.

Sports and recreation grant
The sports and recreation grant was provided to the municipality by the KZN Department of Sports. This grant was used by the municipality for the construction of a sportsfield.

| | 2010<br>R | 2009<br>R |
|---|---|---|

### 11. Unspent conditional grants and receipts (continued)

Spatial planning grant
The objective of this grant is to assist the municipality in influencing the distribution of people and activities in various space scales including land use planning and urban planning.

E-learning grant
The objective of this grant is to undertake generic training of Ward Committees and school governing bodies.

Infrastructure investment grant
The objective of this grant is to provide the municipality with funds to prepare an energy sector plan in order to provide its community with sustainable services.

Zulu dance grant
The objective of this grant is to promote cultural activities.

Cyber cadet grant
The objective of this grant is to promote the education of the youth in terms of computer literacy.

Small town rehabilitation grant
The objective of this grant is to rehabilitate under developed townships and communities.

| **Municipal infrastructure grant (MIG)** | | |
|---|---|---|
| Balance unspent at the beginning of the year | 2,830,582 | 2,825,863 |
| Current year receipts | 12,873,000 | 9,289,810 |
| Conditions met - Transferred to revenue | (5,504,492) | (9,284,891) |
| | **10,199,090** | **2,830,582** |

| **Municipal systems improvement grant (MSIG)** | | |
|---|---|---|
| Balance unspent at the beginning of the year | - | - |
| Current year receipts | 1,215,000 | 735,000 |
| Conditions met - Transferred to revenue | (882,788) | (735,000) |
| | **332,212** | **-** |

| **Municipal assistance programme grant** | | |
|---|---|---|
| Balance unspent at the beginning of the year | - | 28,350 |
| Current year receipts | - | - |
| Conditions met - Transferred to revenue | - | (28,350) |
| | - | - |

| **Feasability study grant** | | |
|---|---|---|
| Balance unspent at the beginning of the year | - | 120,000 |
| Current year receipts | - | - |
| Conditions met - Transferred to revenue | - | (120,000) |
| | - | - |

| **Finance management grant (FMG)** | | |
|---|---|---|
| Balance unspent at the beginning of the year | 15,822 | - |
| Current year receipts | 1,500,000 | 500,000 |
| Conditions met - Transferred to revenue | (989,352) | (484,178) |
| | **526,470** | **15,822** |

| **Spatial planning grant** | | |
|---|---|---|
| Balance unspent at the beginning of the year | - | 115,845 |
| Current year receipts | - | - |
| Conditions met - Transferred to revenue | - | (115,845) |

| | 2010 R | 2009 R |
|---|---|---|
| **11. Unspent conditional grants and receipts (continued)** | | |
| | - | - |
| **Zulu dance grant** | | |
| Balance unspent at the beginning of the year | - | 3,000 |
| Current year receipts | - | - |
| Conditions met - Transferred to revenue | - | (3,000) |
| | - | - |
| **Infrastructure investment grant** | | |
| Balance unspent at the beginning of the year | - | 111,494 |
| Current year receipts | - | - |
| Conditions met - Transferred to revenue | - | (111,494) |
| | - | - |
| **GIS Capacity support grant** | | |
| Balance unspent at the beginning of the year | - | 46,353 |
| Current year receipts | - | - |
| Conditions met - Transferred to revenue | - | (46,353) |
| | - | - |
| **Sports and Recreation grant** | | |
| Balance unspent et the beginning of the year | 444,443 | 325,000 |
| Current year receipts | - | 791,700 |
| Conditions met - Transferred to revenue | (307,392) | (672,257) |
| | **137,051** | **444,443** |
| **E-learning grant** | | |
| Balance unspent at the beginning of the year | 376,755 | 1,000,000 |
| Current year receipts | - | - |
| Conditions met - Transferred to revenue | (209,525) | (623,245) |
| | **167,230** | **376,755** |
| **Town planning scheme grant** | | |
| Balance unspent at the beginning of the year | - | 46,491 |
| Current year receipts | - | - |
| Conditions met - Transferred to revenue | - | (46,491) |
| | - | - |
| **Valuation roll grant** | | |
| Balance unspent at the beginning of the year | - | 109,950 |
| Current year receipts | - | - |
| Conditions met - Transferred to revenue | - | (40,706) |
| | - | **69,244** |
| **Small town rehabilitation grant** | | |
| Balance unspent at the beginning of the year | - | - |
| Current year receipts | 11,300,000 | - |
| Conditions met - Transferred to revenue | (101,544) | - |
| | **11,198,456** | - |
| **Cyber-cadet grant** | | |
| Balance unspent at the beginning of the year | - | - |

| | 2010 R | 2009 R |
|---|---|---|

### 11. Unspent conditional grants and receipts (continued)

| | | |
|---|---|---|
| Current year receipts | 97,572 | - |
| Conditions met - Transferred to revenue | (67,769) | - |
| | **29,803** | **-** |

### 12. Provisions

**Reconciliation of non-current provisions - 2010**

| | Opening Balance | Additions | Total |
|---|---|---|---|
| Provision for landfill site | 3,181,818 | 318,182 | 3,500,000 |

**Reconciliation of non-current provisions - 2009**

| | Opening Balance | Additions | Total |
|---|---|---|---|
| Provision for landfill site | 2,892,562 | 289,256 | 3,181,818 |

**Reconciliation of current provision - 2010**

| | Opening balance | Additons | Reversed during the year | Total |
|---|---|---|---|---|
| Leave pay provision | 764,076 | 133,694 | - | 897,770 |

**Reconciliation of current provision - 2009**

| | Opening balance | Additions | Reversed during the year | Total |
|---|---|---|---|---|
| Leave pay provision | 635,964 | 404,037 | (275,925) | 764,076 |

| | | |
|---|---|---|
| Non-current liabilities | 3,500,000 | 3,181,818 |
| Current liabilities | 897,770 | 764,076 |
| | **4,397,770** | **3,945,894** |

Landfill site
The landfill site provision is raised for the rehabilitation of the waste disposal site to its original state once the site has reached the end of its useful life.

Leave pay
The leave pay provision is accrued at the Basic Conditions of Employment Act rate and is accumulated to a maximum of 48 days per employee.

### 13. Trade and other payables

| | | |
|---|---|---|
| Trade payables | 1,310,866 | 166,818 |
| Other payables | 1,839,679 | 1,322,033 |
| Other deposits | 32,418 | 10,800 |
| Accruals | 896,658 | - |
| | **4,079,621** | **1,499,651** |

The fair value of trade and other payables approximates their carrying amounts.

### 14. Revenue

| | | |
|---|---|---|
| Rendering of services | 1,598,869 | 396,280 |
| Rental of facilities & equipment | 273,805 | 215,328 |
| Government grants (refer note 17) | 36,096,886 | 33,735,926 |

| | 2010 R | 2009 R |
|---|---|---|
| **14. Revenue (continued)** | | |
| | **37,969,560** | **34,347,534** |
| **The amount included in revenue arising from rendering of services are as follows:** | | |
| Property rates (refer note 15) | 1,241,069 | 121,172 |
| Service charges (refer note 16) | 357,800 | 275,108 |
| | **1,598,869** | **396,280** |

| | 2010 R | 2009 R |
|---|---|---|

## 15. Property Rates

**Rates revenue**

**Property valuations**

Valuations on land and buildings are performed every four years. The last general valuation came into effect on November 01, 2008.

The following general rates are applied:

| | |
|---|---|
| - Business | 0.0207c in the Rand |
| - Residential | 0.0196c in the Rand |
| - State Owned | 0.0207c in the Rand |
| - Vacant Land | 0.0219c in the Rand |
| - Place of Worship | 0.0115c in the Rand |

Rebates of the following rates are applied:
100% of market value of Ingonyama trust land
100% of market value of residential properties less than R17000
100% of market value of worshiping properties.
First R50,000 on any residential property
25% of market value less exemption for phasing in discount
4% of market value less exemption for all agricultural properties.
4% of market value less exemption for owners who are illegible pensioners
4% of market value less exemption for indigent owners
42% of market values less exemption and rebates from all categories is reserved for relief during disaster.

Rates are levied on a monthly basis.

Rates are levied on the following properties as per the valuation roll.

| **Property valautions** | | |
|---|---|---|
| Agriculture | 3,291,000 | 3,291,000 |
| Business | 19,021,000 | 19,021,000 |
| Residential | 14,924,500 | 14,924,500 |
| State owned Property | 55,684,000 | 55,684,000 |
| State owned Land | 207,768,100 | 207,768,100 |
| Vacant Land | 748,000 | 748,000 |
| Place of Worship | 2,898,000 | 2,898,000 |
| | **304,334,600** | **304,334,600** |

## 16. Service charges

| | | |
|---|---|---|
| Refuse removal | 357,800 | 275,108 |

| | 2010<br>R | 2009<br>R |
|---|---|---|

### 17. Government grants and subsidies

| | | |
|---|---|---|
| Equitable Share | 27,995,163 | 21,344,895 |
| Finance management grant (FMG) | 989,351 | 484,178 |
| Municipal assistance program grant (MAP) | - | 28,350 |
| Investment infrastructure grant | - | 111,494 |
| Spatial planning grant | - | - |
| GIS Capacity support grant | - | 46,353 |
| Municipal systems improvement grant (MSIG) | 882,788 | 735,000 |
| Municipal infrastucture grant (MIG) | 5,504,492 | 9,284,891 |
| LG SETA grant | 38,862 | 79,221 |
| Valuation roll grant | - | 40,706 |
| Zulu dance grant | - | 3,000 |
| Sports and recreation grant | 307,392 | 672,257 |
| Town planning grant | - | 46,491 |
| E-learning grant | 209,525 | 623,245 |
| Feasability study grant | - | 120,000 |
| Spatial planning grant | - | 115,845 |
| Cyber cadet grant | 67,769 | - |
| Small town rehabilitation grant | 101,544 | - |
| | **36,096,886** | **33,735,926** |

### 18. Other income

| | | |
|---|---|---|
| Sundry income | 141,887 | 134,634 |

| | 2010 R | 2009 R |
|---|---|---|

## 19. Employee related costs

| | | |
|---|---|---|
| Basic | 8,012,716 | 6,930,667 |
| Bonus | 533,047 | 567,029 |
| Medical aid - company contributions | 356,661 | 350,983 |
| UIF | 57,996 | 52,457 |
| SDL | 116,279 | 72,063 |
| Other payroll levies | 2,770 | 2,568 |
| Leave pay provision charge | 133,693 | 128,112 |
| Post-employment benefits | 761,724 | 701,450 |
| Travel, motor car, accommodation, subsistence and other allowances | 1,059,134 | 1,319,476 |
| Overtime payments | 107,005 | 39,965 |
| Housing benefits and allowances | 69,677 | 266,406 |
| | **11,210,702** | **10,431,176** |

**Remuneration of municipal manager**

| | | |
|---|---|---|
| Annual remuneration | 548,289 | 403,833 |
| Travel and other allowances | 112,547 | 206,400 |
| Bonus | - | - |
| Retirement annuity | 6,000 | - |
| Backpay | 6,733 | - |
| | **673,569** | **610,233** |

**Remuneration of chief finance officer**

| | | |
|---|---|---|
| Annual remuneration | 458,810 | 303,874 |
| Travel and other allowances | 108,000 | 213,383 |
| Bonus | - | - |
| Backpay | 5,487 | - |
| | **572,297** | **517,257** |

**Remuneration of Director Corporate Services**

| | | |
|---|---|---|
| Annual remuneration | 412,724 | 303,874 |
| Travel and other allowances | 113,732 | 213,383 |
| Bonus | 40,355 | - |
| Backpay | 5,723 | - |
| | **572,534** | **517,257** |

**Remuneration of the Director of Community services manager**

| | | |
|---|---|---|
| Annual remuneration | 342,287 | 303,874 |
| Travel and other allowances | 96,123 | 213,383 |
| Bonus | 33,017 | - |
| Backpay | 5,723 | - |
| | **477,150** | **517,257** |

| | 2010 R | 2009 R |
|---|---|---|

## 19. Employee related costs (continued)

**Renumeration of Technical services manager**

| | | |
|---|---|---|
| Annual Remuneration | 421,606 | 303,874 |
| Travel and other allowances | 104,850 | 213,383 |
| Bonus | 40,354 | - |
| Backpay | 5,723 | - |
| Acting allowance | 50,497 | - |
| | **623,030** | **517,257** |

## 20. Remuneration of councillors

| | | |
|---|---|---|
| Mayor | 263,970 | 241,987 |
| Deputy Mayor | 213,647 | 196,035 |
| Speaker | 213,647 | 196,035 |
| Councillors | 2,177,395 | 1,983,825 |
| Executive committee members | 604,803 | 554,014 |
| Councillor's allowances | 964,197 | 951,733 |
| | **4,437,659** | **4,123,629** |

## 21. Debt impairment

| | | |
|---|---|---|
| Increase in provision for bad debts | 67,151 | 475,968 |

## 22. Investment revenue

| | | |
|---|---|---|
| **Interest revenue** | | |
| Bank | 47,248 | 75,898 |
| Interest on investments | 491,571 | 379,315 |
| | **538,819** | **455,013** |

## 23. Depreciation and amortisation

| | | |
|---|---|---|
| Property, plant and equipment | 2,254,484 | 2,127,057 |
| Intangible assets | 6,316 | 2,822 |
| | **2,260,800** | **2,129,879** |

## 24. Finance costs

| | | |
|---|---|---|
| Finance cost | 318,182 | 289,256 |

The finance cost arises from the unwinding of the provision for landfill site.

## 25. Auditors' remuneration

| | | |
|---|---|---|
| Fees (refer note 27) | 864,674 | 991,306 |

| | 2010 R | 2009 R |
|---|---|---|

## 26. Rental income of facilities and equipment

| | | |
|---|---|---|
| **Premises** | | |
| Premises | 273,805 | 215,328 |

## 27. General expenses

| | | |
|---|---|---|
| Printing and stationery | 70,269 | 232,443 |
| Accommodation | 185,057 | 136,581 |
| Telephone | 639,935 | 828,653 |
| Audit fees | 864,674 | 991,306 |
| Other general expenses | 10,048,117 | 7,906,997 |
| | **11,808,052** | **10,095,980** |

## 28. Cash generated from operations

| | | |
|---|---|---|
| Surplus | 7,211,651 | 6,498,989 |
| **Adjustments for:** | | |
| Depreciation and amortisation | 2,260,800 | 2,129,879 |
| Loss on sale of motor vehicle | 40,660 | - |
| Interest income | (538,819) | (455,013) |
| Finance costs | 318,182 | 289,256 |
| Movements in provisions | 451,876 | 3,332,629 |
| Adjustments for GRAP | - | 98,467,425 |
| Other non-cash items | 6,020,024 | (91,732,735) |
| **Changes in working capital:** | | |
| Other receivables | - | 521,680 |
| Consumer debtors | (1,044,234) | (693,931) |
| Trade and other payables | 2,579,970 | 262,750 |
| VAT | (83,321) | 1,484,956 |
| | **17,216,789** | **20,105,885** |

| | 2010 R | 2009 R |
|---|---|---|

## 29. Commitments

**Authorised capital expenditure**

**The following projects were committed to at year-end:**

| | 2010 R | 2009 R |
|---|---|---|
| Nkandla disaster centre | 68,767 | - |
| Indlageza access road | 3,214,035 | - |
| CBD Community Sidewalks | 1,880,211 | - |
| Kwa-Seyana Causeway | 1,763,927 | - |
| Upgrading of Cemetery | 4,118,057 | - |
| SMME Park Phase 2 | 1,556,857 | - |
| CBD Roads & Stormwater | 6,357,165 | - |
| Mfongosi/Ngono Road | 128,482 | - |
| Nkandla Access Road | 141,306 | - |
| Vimbimbobo CSCS | 91,360 | - |
| Dlabe Road | 96,339 | - |
| Matshenezimpisi Road | 191,897 | - |
| Mahlayizeni/Matshenezimpisi Road | 665,126 | - |
| Nkandla Business Park | 975,649 | - |
| Nyawoshane CSC | 54,914 | - |
| | **21,304,092** | **-** |

At the reporting date the entity has outstanding commitments under operating leases which fall due as follows:

**Operating leases – as lessee**

| **Minimum lease payments due** | | |
|---|---|---|
| - within one year | 552,982 | 393,258 |
| - in second to fifth year inclusive | 528,489 | 517,220 |
| | **1,081,471** | **910,478** |

Operating leases consists of the following:
Operating lease payments represent rentals payable by the municipality for its printers, photocopiers, vehicles, tracker system and sanitiser system. Leases are negotiated for an average term of five years for printers, three years for the tracker and sanitiser systems and the lease period for motor vehicles are within the range of two to three years. Lease rentals for printers escalate from 12% to 15% or the increase in lease rentals is linked to the interest rate, over the lease periods. Contingent rentals are dependant on the prime interest rate.

**Operating leases – as lessor**

| **Minimum lease payments due** | | |
|---|---|---|
| - within one year | 265,991 | 296,770 |
| - in second to fifth year inclusive | 687,037 | 895,207 |
| - later than five years | 180,019 | 218,544 |
| | **1,133,047** | **1,410,521** |

Operating leases consists of the following:
Certain of the municipality's land and buildings is held to generate rental income. Rental of land and buildings is expected to generate rental yields of variable percentages (depending on the municipal tariff rates). Lease agreements have terms from 5 to 30 years.

## 30. Contingencies

A forensic investigation was undertaken by KPMG during the current financial year.The outcome of the court case was determined after the financial year-end. The previous municipal manager (Mr ME Ngonyama), was charged on 6 counts. Five charges were as a result of irregular supply chain management proceedings that were carried out by Mr Ngonyama. He was found guilty on the five charges relating to supply chain management. The sixth charge was a result of an overpayment to SMT Holdings (Pty) Ltd by R718 000 of which he was not found guilty. He was subsequently dismissed.

| | 2010 | 2009 |
|---|---|---|
| | R | R |

**31. Related parties**

At the time of completion of the annual financial statements, there were no related party relationships in existence.

**32. Events after the reporting date**

There are no events subsequent to the reporting date to report of as at the date of the annual financial statements.

**33. Unauthorised expenditure**

At the time of completion of the annual financial statements, there were no unauthorised expenditure.

| | 2010 R | 2009 R |
|---|---|---|
| **34. Fruitless and wasteful expenditure** | | |
| Discontinuation of Maphuthu electrification project | 29,474 | 13,156 |
| Penalties and interest in respect of PAYE | - | 25,161 |
| | **29,474** | **38,317** |

**Maphuthu electrification project**
In the current financial year (2009/2010), an amount of R29,473.68 was incurred in respect of payment to contractors for the cost of designs and other studies for the Maphuthu electrification project. However, this project ceased (council decided to terminate this project). In the prior financial year an amount of R13,155.90 was incurred in respect of the above mentioned project. The cost of the project has resulted in fruitless and wasteful expenditure.

**Penalties and Interest in respect of PAYE**
In the prior year the municipality incurred penalties and interest as a result of late payment in respect of PAYE to the value of R25 161.

## 35. Irregular expenditure

**Details of Irregular Expenditure – Current year**

During the financial year, the previous municipal manager (Mr ME Ngonyama) awarded a tender to Umnotho business consulting without following the proper supply chain management process. The value of the tender was R 207,250. Mr Ngonyama was subsequently charged with this offense through the displinary process and has been dismissed.

## 36. In-kind donations and assistance

Municipal Support Program
The Municipal support program is initiated by the Provincial Treasury to support and assist selected municipalities in improving their level of financial management and skills available to them through capacity building to ensure sustainability of municipality operations. The cost of the project is estimated to be R4,200,000, given to the municipality in kind.

## 37. Risk management

Maximum credit risk exposure
Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluates credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the municipality. The utilisation of credit limits is regularly monitored.

Financial assets exposed to credit risk at year end are noted under the respective Financial assets -Investments, Trade and other receivables and the Cash and cash equivalents notes.

These balances represent the maximum exposure to credit risk.

Liquidity risk
The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The municipality's financial liabilities are all classified as current liabilities, payable within the next 12 months, other than the finance lease, the maturity of which is disclosed in the finance lease note.

Interest rate risk
As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

### 37. Risk management (continued)

At year end, financial instruments exposed to interest rate risk were as follows:
- Call deposits
- Notice deposits
- Long-term debtors

| | Effect on profit before tax | |
|---|---|---|
| | **2% increase** | **2% decrease** |
| **2010** | | |
| Financial assets - Investments | 367,641 | (367,641) |
| **2009** | | |
| Financial assets - Investments | 23,402 | (23,402) |

| | 2010 R | 2009 R |
|---|---|---|

38. Restatement of corresponding figures

**The following adjustments were made to amounts previously reported in the annual financial statements of the municipality arising from errors noted in 2009.**
**The comparative amount has been restated as follows:**

| | 2010 | 2009 |
|---|---|---|
| **VAT receivable** | | |
| Balance previously reported | - | 1,946,027 |
| Transferred to accumulated surplus/(deficit) | - | (1,560,127) |
| | - | **385,900** |
| **Consumer debtors** | | |
| Balance previously reported | - | 306,192 |
| Transferred to Accumulated surplus/(deficit) | - | (142,998) |
| | - | **163,194** |
| **Unspent conditional grants and receipts** | | |
| Balance previously reported | - | (6,115,044) |
| Transferred to Accumulated surplus/(deficit) | - | 2,378,198 |
| | - | **(3,736,846)** |
| **Property, plant and equipment** | | |
| Balance previously reported | - | 49,303,764 |
| Transferred to Accumulated surplus/(deficit) | - | 100,630,991 |
| | - | **149,934,765** |
| **Cash and cash equivalents** | | |
| Balance previously reported | - | 347,457 |
| Transferred to Accumulated surplus/(deficit) | - | 69,320 |
| | - | **416,777** |
| **Investment property** | | |
| Balance as previously reported | - | - |
| Transferred to Accumulated surplus/(deficit) | - | 18,000 |
| | - | **18,000** |
| **Intangible assets** | | |
| Balance as previously reported | - | - |
| Transferred to Accumulated surplus/(deficit) | - | 6,162 |
| | - | **6,162** |
| **Provision for landfill site** | | |
| Balance as previously reported | - | - |
| Transferred to Accumulated surplus/(deficit) | - | (3,181,818) |
| | - | **(3,181,818)** |
| **Provision for leave pay** | | |
| Balance as previously reported | - | (360,040) |
| Transferred to Accumulated surplus/(deficit) | - | (404,037) |
| | - | **(764,077)** |
| **Trade payables** | | |
| Balance as previously reported | - | (444,536) |

| | 2010 R | 2009 R |
|---|---|---|
| **38. Restatement of corresponding figures (continued)** | | |
| Transferred to Accumulated surplus/(deficit) | - | 277,717 |
| | **-** | **(166,819)** |
| **Other payables** | | |
| Balance as previously reported | - | (1,708,850) |
| Transferred to Accumulated surplus/(deficit) | - | 376,017 |
| | **-** | **(1,332,833)** |
| Net effect on accumulated surplus opening balance - credit balance | - | 98,467,425 |
| **Made up as follows:** | | |
| Transfer of balance sheet items to Accumulated surplus | - | 101,240,594 |
| (Decrease) in revenue | - | (1,654,370) |
| (Decrease) in other income | - | (14,379) |
| (Decrease) in finance revenue | - | (223) |
| (Increase) in finance costs | - | (289,256) |
| (Increase) in operating expenses | - | (814,941) |
| | **-** | **98,467,425** |

### 39. Councillor's arrear consumer accounts

| The following Councillors had arrear accounts more outstanding for more than 90 days as at: - days | **Total** | **Outstanding less than 90 days** | **Outstanding than 90** |
|---|---|---|---|
| as at 30 June 2010 | | | |
| Councillor: ML Mncube | 1,567 | 270 | 1,298 |

| During the year the following Councillors had arrear accounts outstanding for more than 90 days. | **Highest Amount Outstanding** | **Ageing Days** |
|---|---|---|
| as at 30 June 2010 | | |
| Councillor: ML Mncube | 67 | 330 |

40. Comparison of the budget and actual amounts

| Description | Current Year 2009/10 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| R thousands | Original Budget | Adjusted Budget | Final budget | Actual Outcome | Unauthoriesd expenditure | Variance | Actual outcome As a % of final Budget | Actual outcome As a % of Original Budget |
| Financial Performance | | | | | | | | |
| Property rates | 300 | 792 | 792 | 1,241 | – | (450) | 157% | 414% |
| Service charges | 2,670 | 4,509 | 4,509 | 358 | – | 4,151 | 8% | 13% |
| Investment revenue | 90 | 441 | 441 | 539 | – | (98) | 122% | 599% |
| Transfers recognised - operational | 29,451 | 29,451 | 29,451 | 36,097 | – | (6,646) | 123% | 123% |
| Other own revenue | 800 | 418 | 418 | 416 | – | 2 | 100% | 52% |
| Total Revenue (excluding capital transfers and contributions) | 33,310 | 35,609 | 35,609 | 38,650 | – | (3,041) | 109% | 116% |
| Employee costs | 12,897 | 14,475 | 14,475 | 11,211 | – | 3,264 | 77% | 87% |
| Remuneration of councillors | 3,854 | 3,854 | 3,854 | 4,438 | – | (583) | 115% | 115% |
| Depreciation & asset impairment | 3,087 | 3,087 | 3,087 | 2,261 | – | 826 | 73% | 73% |
| Finance charges | – | – | – | 318 | – | (318) | 100% | 100% |
| Materials and bulk purchases | 2,640 | 37 | 37 | – | – | 37 | 0% | 0% |
| Transfers and grants | – | – | – | – | – | – | 0% | 0% |
| Other expenditure | 10,792 | 10,016 | 10,016 | 12,834 | – | (2,818) | 128% | 119% |
| Total Expenditure | 33,271 | 31,470 | 31,470 | 31,061 | – | 409 | 99% | 93% |
| Surplus/(Deficit) | 40 | 4,140 | 4,140 | 7,589 | – | (3,449) | 183% | 19142% |
| Transfers recognised - capital | 12,873 | 12,873 | 12,873 | | – | 12,873 | 0% | 0% |
| Contributions recognised - capital & contributed assets | – | – | – | | – | – | 0% | 0% |
| Surplus/(Deficit) after capital transfers & contributions | 12,913 | 17,013 | 17,013 | 7,589 | – | 9,424 | 45% | 59% |
| Share of surplus/ (deficit) of associate | – | – | – | – | – | – | 0% | 0% |
| Surplus/(Deficit) for the year | 12,913 | 17,013 | 17,013 | 7,589 | – | 9,424 | 45% | 59% |
| Capital expenditure & funds sources | | | | | | | | |
| Capital expenditure | 12,881 | 12,881 | 12,881 | 5,504 | – | 7,377 | 43% | 43% |
| Transfers recognised - capital | 12,873 | 12,873 | 12,873 | – | – | 12,873 | 0% | 0% |
| Public contributions & donations | – | – | – | – | – | – | 0% | 0% |
| Borrowing | – | – | – | – | – | – | 0% | 0% |
| Internally generated funds | – | – | – | – | – | – | 0% | 0% |
| Total sources of capital funds | 12,873 | 12,873 | 12,873 | 5,504 | – | 7,369 | 43% | 43% |
| Cash flows | | | | | | | | |
| Net cash from (used) operating | 8,422 | 12,522 | 12,522 | 17,437 | – | (4,915) | 139% | 207% |
| Net cash from (used) investing | (12,881) | (12,881) | (12,881) | (10,662) | – | (2,219) | 83% | 83% |
| Net cash from (used) financing | – | – | – | – | – | – | 0% | 0% |
| Cash/cash equivalents at the year end | (3,470) | 630 | 630 | 6,776 | – | (6,146) | 1075% | -195% |

**NKANDOLA MUNICIPALITY**
**APPENDIX A**
**ANALYSIS OF PROPERTY PLANT AND EQUIPMENT**
30-Jun-10

| | Cost / Revaluation | | | | | Accumulated Depreciation | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Opening Balance | Additions | Disposals | Transfers | Closing Balance | Opening Balance | Depreciation | Disposals | Impairment loss/Reversal of impairment loss | Closing Balance | Assets Under Construction | Other movements | Carrying Value |
| | R' | R' | R' | R' | R' | R' | R' | R' | R' | R' | R' | R' | R' |
| **Infrastructure Assets** | | | | | | | | | | | | | |
| Electrical Infrastructure | - | - | - | | - | - | - | - | - | - | | - | - |
| Roads | 12,825,736 | 4,966,095 | - | | 17,791,832 | 920,266 | 474,283 | - | - | 1,394,548 | 2,306,481 | - | 18,703,765 |
| | 12,825,736 | 4,966,095 | - | - | 17,791,832 | 920,266 | 474,283 | - | - | 1,394,548 | 2,306,481 | - | 18,703,765 |
| Land | | | | | | | | | | | | | |
| Land | 104,025,940 | - | - | (20,000) | 104,005,940 | - | - | - | - | - | - | - | 104,005,940 |
| Land fill site | 2,892,562 | | - | - | 2,892,562 | 180,785 | 180,785 | - | - | 361,570 | - | - | 2,530,992 |
| | 106,918,502 | - | - | (20,000) | 106,898,502 | 180,785 | 180,785 | - | - | 361,570 | - | - | 106,536,932 |
| **Buildings** | 4,329,275 | - | - | | 4,329,275 | 672,649 | 144 309 | - | - | 816,959 | 4,064,400 | - | 7,576,717 |
| | 4,329,275 | - | - | - | 4,329,275 | 672,649 | 144,309 | - | - | 816,959 | 4,064 400 | - | 7,576,717 |
| **Community Assets** | | | | | | | | | | | | | |
| Cemetery | - | - | - | - | - | - | - | - | - | - | 75 926 | - | 75,926 |
| Hall | 592,130 | - | - | - | 592,133 | 1,566 | 19,738 | - | - | 21,307 | - | - | 570,826 |
| Community Centre | 2,838,533 | - | - | - | 2,838,533 | 7,518 | 94 621 | - | - | 102,139 | 2,431,637 | - | 5,168,130 |
| Civic Buildings | 4,752,465 | - | - | - | 4,752,465 | 477,777 | 158,416 | - | - | 636,193 | 649,380 | - | 4,765,652 |
| Creche | 1,989,518 | - | - | - | 1,989,518 | 176,985 | 66,317 | - | - | 243,302 | - | - | 1,746,216 |
| Library | 830,823 | - | - | - | 830,823 | 194,010 | 27,694 | - | - | 221,704 | - | - | 609,119 |
| Recreation gardens | 2,301,991 | 979,649 | - | - | 3,281,640 | 914,700 | 79,326 | - | - | 994,027 | - | - | 2,287,613 |
| Stalls | 1,441,370 | - | - | - | 1,441,370 | 177,863 | 48,046 | - | - | 225,909 | - | - | 1,215,461 |
| Swimming Pool | 1,490,432 | - | - | - | 1,490,432 | 70,098 | 49,681 | - | - | 119,779 | - | - | 1,370,653 |
| Taxi Ranks | 1,222,767 | - | - | - | 1,222,767 | 112,940 | 40 759 | - | - | 153,699 | - | - | 1,069,068 |
| | 17,460,132 | 979,649 | - | - | 18,439,782 | 2,133,460 | 584,599 | - | - | 2,718,058 | 3,156,942 | - | 18,878,666 |
| **Total carried forward** | 141,533,846 | 5,945,744 | - | (20 000) | 147,459,391 | 3,907,159 | 1,383,975 | - | - | 5,291,134 | 9,527,823 | - | 151,696,079 |

**NKANDLA MUNICIPALITY**
**APPENDIX A**

30-Jun-10

| | Cost / Revaluation | | | | | Accumulated Depreciation | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Opening Balance | Additions | Disposals | Transfers | Closing Balance | Opening Balance | Depreciation | Disposals | Impairment loss/Reversal of impairment loss | Closing Balance | Assets Under Construction | Other movements | Carrying Value |
| | R' | R' | R' | R' | R' | R' | R' | R' | R' | R' | R' | R' | R' |
| Total brought forward | 141,533,646 | 5,945,744 | - | (20,000) | 147,459,391 | 3,907,159 | 1,363,975 | - | - | 5,291,134 | 9,527,823 | - | 151,696,079 |
| Other Assets | | | | | | | | | | | | | |
| Office equipment | 111,485 | 3,874 | - | - | 115,359 | 61,106 | 15,034 | - | - | 76,140 | - | - | 39,219 |
| Computer Equipment | 1,596,296 | 171,921 | - | - | 1,768,217 | 872,704 | 413,371 | - | - | 1,286,076 | - | - | 482,141 |
| Furniture & Fittings | 1,331,424 | 835 | - | - | 1,332,259 | 721,969 | 167,762 | - | - | 889,731 | - | - | 442,528 |
| Motor Vehicles | 1,242,101 | 241,932 | (165,000) | - | 1,319,033 | 825,184 | 145,859 | (4,340) | - | 966,683 | - | - | 352,350 |
| Parkhome | - | 130,405 | - | - | 130,405 | - | 36 | - | - | 35 | - | - | 130,370 |
| Plant & Machinery | 1,675,270 | - | - | - | 1,675,270 | 828,649 | 132,784 | - | - | 961,434 | - | - | 713,836 |
| | 5,956,576 | 548,968 | (165,000) | - | 6,340,544 | 3,309,592 | 874,846 | (4,340) | - | 4,180,099 | - | - | 2,160,445 |
| Total | 147,490,222 | 6,494,712 | (165,000) | (20,000) | 153,799,935 | 7,216,751 | 2,258,822 | (4,340) | - | 9,471,234 | 9,527,823 | - | 153,856,524 |

# NKANDLA MUNICIPALITY
## APPENDIX A
### ANALYSIS OF PROPERTY PLANT AND EQUIPMENT
30-Jun-09

| | Cost : Revaluation | | | | | Accumulated Depreciation | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Opening Balance | Additions | Disposals | Transfers | Closing Balance | Opening Balance | Depreciation | Disposals | Impairment loss/Reversal of impairment loss | Closing Balance | Assets Under Construction | Other movements | Carrying Value |
| | R' | R' | R' | R' | R' | R' | R' | R' | R' | R' | R' | R' | R' |
| **Infrastructure Assets** | | | | | | | | | | | | | |
| Electrical Infrastructure | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Roads | 11,394,355 | 1,431,381 | - | | 12,825,736 | 505,503 | 414,763 | - | - | 920,266 | 3,202,536 | - | 15,108,006 |
| | 11,394,355 | 1,431,381 | - | - | 12,825,736 | 505,503 | 414,763 | - | - | 920,266 | 3,202,536 | - | 15,108,006 |
| **Land** | | | | | | | | | | | | | |
| Land | 104,043,940 | - | - | (18,000) | 104,025,940 | - | - | - | - | - | - | - | 104,025,940 |
| Land fill site | 2,892,562 | - | - | - | 2,892,562 | - | 180,785 | - | - | 180,785 | - | - | 2,711,777 |
| | 106,936,502 | - | - | (18,000) | 106,918,502 | - | 180,785 | - | - | 180,785 | - | - | 106,737,717 |
| **Buildings** | 4,329,275 | - | - | | 4,329,275 | 528,340 | 144,309 | - | - | 672,649 | 2,907,995 | - | 6,564,621 |
| | 4,329,275 | - | - | - | 4,329,275 | 528,340 | 144,309 | - | - | 672,649 | 2,907,995 | - | 6,564,621 |
| **Community Assets** | | | | | | | | | | | | | |
| Cemetery | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Hall | - | 592,133 | - | - | 592,133 | - | 1,556 | - | - | 1,568 | - | - | 590,564 |
| Community Centre | - | 2,838,533 | - | - | 2,838,533 | - | 7,510 | - | - | 7,578 | 2,229,117 | - | 5,060,231 |
| Civic Buildings | 4,752,465 | - | - | | 4,752,465 | 319,361 | 158,416 | - | - | 477,777 | 649,380 | - | 4,924,068 |
| Creche | 1,989,518 | - | - | - | 1,989,518 | 110,668 | 66,317 | - | - | 176,985 | - | - | 1,812,533 |
| Library | 830,823 | - | - | - | 830,823 | 166,316 | 27,694 | - | - | 194,010 | - | - | 636,813 |
| Recreation gardens | 2,301,991 | - | - | | 2,301,991 | 837,967 | 76,733 | - | - | 914,700 | 672,257 | - | 2,059,548 |
| Stalls | 1,441,370 | - | - | - | 1,441,370 | 129,817 | 48,046 | - | - | 177,863 | - | - | 1,263,507 |
| Swimming Pool | 1,490,432 | - | - | - | 1,490,432 | 20,417 | 49,681 | - | - | 70,098 | - | - | 1,420,334 |
| Taxi Ranks | 1,222,767 | - | - | - | 1,222,767 | 72,181 | 40,759 | - | - | 112,940 | - | - | 1,109,827 |
| | | | | | - | | | | | | | | - |
| | 14,029,365 | 3,430,766 | - | - | 17,460,132 | 1,656,727 | 476,732 | - | - | 2,133,460 | 3,550,753 | - | 18,877,426 |
| Total carried forward | 136,689,500 | 4,862,147 | - | (18,000) | 141,533,645 | 2,690,570 | 1,216,588 | - | - | 3,907,159 | 9,661,285 | - | 147,287,770 |

**APPENDIX A**
**ANALYSIS OF PROPERTY PLANT AND EQUIPMENT**
**30-Jun-09**

| | Cost / Revaluation | | | | | Accumulated Depreciation | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Opening Balance | Additions | Disposals | Transfers | Closing Balance | Opening Balance | Depreciation | Disposals | Impairment loss/Reversal of impairment loss | Closing Balance | Assets Under Construction | Other movements | Carrying Value |
| | R' | R' | R' | R' | R' | R' | R' | R' | R' | R' | R' | R' | R' |
| Total brought forward | 136.689.500 | 4,862,147 | - | (18,000) | 141,533,845 | 2,890,578 | 1,216,588 | - | - | 3,907,769 | 9,661,285 | - | 147,287,770 |
| Other Assets | | | | | | | | | | | | | |
| Office equipment | 79.182 | 32.303 | - | - | 111,485 | 44,444 | 16,663 | - | - | 61,106 | - | - | 50,380 |
| Computer Equipment | 980.879 | 615.416 | - | - | 1,596.296 | 450,588 | 422,115 | - | - | 872,704 | - | - | 723.592 |
| Furniture & Fittings | 757.059 | 574.365 | - | - | 1,331,424 | 526,503 | 195,466 | - | - | 721.969 | - | - | 609.455 |
| Motor Vehicles | 1,077,101 | 165.000 | - | - | 1,242,101 | 681,704 | 143,460 | - | - | 825.164 | - | - | 416,937 |
| Parkhome | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Plant & Machinery | 1,631.118 | 44,152 | - | - | 1,675,270 | 695,885 | 132,764 | - | - | 828.649 | - | - | 846.621 |
| | 4,525,339 | 1,431,236 | - | - | 5,956,576 | 2,399,124 | 910,487 | - | - | 3,309,592 | - | - | 2,646,985 |
| Total | 141.214,839 | 6,293,382 | - | (18,000) | 147,490,221 | 5,089,694 | 2,127,056 | - | - | 7,216,751 | 9,661,285 | - | 149,934,755 |